



**BEFORE THE PUBLIC UTILITIES COMMISSION OF
THE STATE OF CALIFORNIA**

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Application of Pacific Gas and Electric Company to
Establish a Demonstration Climate Protection Program and
Tariff Option

Application 06-01-012

**REPLY COMMENTS OF THE UTILITY REFORM NETWORK ON
THE ALTERNATE DECISION OF COMMISSIONER PEEVEY**



Matthew Freedman
The Utility Reform Network
711 Van Ness Avenue, Suite 350
San Francisco, CA 94102
(415) 929-8876
December 11, 2006

REPLY COMMENTS OF THE UTILITY REFORM NETWORK ON THE ALTERNATE DECISION OF COMMISSIONER PEEVEY

Pursuant to Rule 14.3, The Utility Reform Network (TURN) hereby files reply comments on the Proposed Alternate Decision (PAD) of Commissioner Peevey on the application of Pacific Gas & Electric (PG&E) seeking to establishment of a Climate Protection Tariff (CPT). Specifically, TURN responds to the opening comments of PG&E and takes issue with several factual contentions raised.

I. The shareholder guarantee is appropriate and necessary to ensure accountability and cost-effectiveness

PG&E takes issue with any shareholder guarantee mechanism and argues that this element of the PAD (and the Proposed Decision) is “inappropriate – particularly for a first-of-its-type demonstration program.”¹ PG&E further suggests that evidence from other green pricing programs shows average customer participation rates of 1 percent, or 25% of PG&E’s goals for the CPT.² If a one percent participation rate should be expected by the Commission (as implied by PG&E), then the cost-effectiveness of the CPT declines precipitously and the entire rationale for this program should be re-examined.

TURN’s opening brief compares several scenarios showing the relative cost-effectiveness at various levels of participation with the expected cost-effectiveness of directly purchasing GHG reductions on behalf of all ratepayers. In order to understand the impact of a one percent participation rate, TURN reproduces these results along with a case in which the participation rate is only one percent.³

¹ PG&E opening comments, page 3.

² PG&E opening comments, page 3.

³ TURN opening brief, pages 13-15.

PG&E's base case participation assumptions	\$18/ton
Assume 50% of base case customer participation	\$26.4/ton
Assume 1% participation (PG&E opening comments)	\$42.8/ton⁴
Direct purchase of 2,000,000 tons without marketing budget	\$12/ton

This simple comparison shows that the most cost-effective approach for achieving GHG reductions is direct purchase by PG&E without the use of a marketing budget. Although the PAD does not adopt this approach, it does require that PG&E achieve a minimum of 1.5 million tons of GHG reductions through the CPT program or with shareholder funds. Given the potentially abysmal cost-effectiveness of the CPT program under low participation rates, a shareholder guarantee is absolutely critical to ensuring that the CPT does not become a fiasco for the non-participating ratepayers who are funding the program budget.

Throughout this case, TURN has stressed the need for accountability. In contrast, PG&E opposes any shareholder accountability regardless of whether the utility either mismanages the program or fails to produce any meaningful results. Ratepayers deserve better from a utility which aspires to being an industry leader. The Commission can establish a modicum of accountability by retaining the shareholder guarantee and thereby encouraging PG&E to perform well and keep its promises.

II. PG&E's assertion regarding the impact of including A&M costs in CPT premiums is not based on any evidence or analysis.

PG&E asserts that the inclusion of A&M costs in CPT premiums would result in a significant drop off in customer participation. Specifically, PG&E cites the potential for a 30% reduction in participation by residential customers.⁵ In support of this particular assertion, PG&E references

⁴ This calculation assumes that \$16.4 million in A&M expenses plus \$5 million in customer premiums would yield 500,000 tons of GHG reductions.

⁵ PG&E opening comments, page 3.

its own rebuttal testimony. Yet a review of the cited testimony provides no evidence that assigning 50% of A&M costs would cause a 30% decrease in residential customer participation. PG&E's rebuttal testimony merely states that the CPT premium would increase to \$8.62 per month "assuming a 30 percent decline in enrollment."⁶ In other words, PG&E used the 30 percent figure as illustrative for purposes of calculating a higher potential premium level. PG&E did not claim that a 30 percent decline was anticipated based on the research provided in its application. In order to correct the record, the Commission should recognize that a 30 percent reduction is not supported by the results of the studies performed by PG&E's own consultants and fails to take into account any benefits associated with tax deductibility.

As explained in previous comments, TURN urges the Commission to either allocate 50% of A&M costs to participating customers or set the CPT premium to result in an average 4% bill impact. The 4% impact would be consistent with PG&E's own study, is not expected to harm participation rates, and results in a reasonable allocation of costs to participants.

III. PG&E's emphasis on enrolling business customers highlights the unfairness of the proposed allocation of CPT costs amongst non-participating customers

TURN agrees with PG&E that the CPT program is not "primarily designed as a residential program."⁷ In contrast to that characterization in the PAD, PG&E explains that "program success will depend on significant levels of business customer sign-ups."⁸ Given this reality (and for other reasons described in opening comments), TURN urges the Commission to recognize that CPT participation by non-residential customers (10% of total enrollees) is expected to mirror their makeup within the entire customer base (~12% of total bundled customers). Since business customers are expected to subscribe to the CPT in numbers comparable to their makeup of the entire customer base, non-residential customers should be

⁶ Ex. 3, page 1-8.

⁷ PAD, page 30.

⁸ PG&E opening comments, page 7.

allocated a full share of the program costs consistent with the approach taken for other comparable public purpose programs (CARE, energy efficiency). It is not equitable to assign more than 50% of the CPT A&M costs to non-participating residential customers.

IV. The allocation of GHG emission reductions by biogas facilities remains ambiguous

PG&E suggests that TURN misunderstands the impact of standard terms and conditions language relating to GHG reductions by biogas facilities under contract to an IOU under the Renewables Portfolio Standard (RPS) program.⁹ Claiming that there are no complications associated with purchasing GHG reductions from such biogas facilities to meet CPT program goals, PG&E urges the Commission to modify the PAD.

Neither the Commission nor PG&E has sought to implement the relevant RPS contract provision approved by D.04-06-014. This provision specifies that any biomass or landfill gas facility selling power under an RPS contract must provide the buyer with sufficient environmental attributes to ensure “zero net emissions associated with the production of electricity from the facility.”¹⁰ This requirement is conditioned on the receipt of “tradable environmental attributes” by the generator. To date, there are no “tradable environmental attributes” for GHGs recognized or sanctioned by this Commission. Furthermore, the Commission has not developed any methodology for determining the gross or net GHG emissions of a renewable generator such as a biogas facility. Therefore, any efforts to transfer what appear to be ‘surplus’ GHG emissions outside of an RPS contract reflect nothing more than a best guess attempt by the seller without any review by the Commission.

TURN does not oppose the concept of allowing biogas facilities to sell excess GHG emissions not covered by an RPS contract. The problem is that, at present, no system has been developed

⁹ PG&E opening comments, page 5.

¹⁰ D.04-06-014, Appendix A, page 3

to either assign any such “tradable attributes” or determine the proper method for calculating “zero net emissions.” TURN anticipates that both efforts will be subject to litigation and dispute amongst the relevant parties. Until these issues are resolved, TURN recommends that the Commission deny the inclusion of such reductions in the CPT program.

Respectfully submitted,

MATTHEW FREEDMAN

/s/

Attorney for
The Utility Reform Network
711 Van Ness Avenue #350
San Francisco, CA 94102
Phone: 415-929-8876

Dated: December 11, 2006

CERTIFICATE OF SERVICE

I, Cory Oberdorfer, certify under penalty of perjury under the laws of the State of California that the following is true and correct:

I served the attached:

REPLY COMMENTS OF THE UTILITY REFORM NETWORK ON

THE ALTERNATE DECISION OF COMMISSIONER PEEVEY

by sending said document by electronic mail to each of the parties on the attached Service List to **A.06-01-012**.

Executed this December 11, 2006, in San Francisco, California.

_____/s/_____

Cory Oberdorfer
TURN Administrative Assistant
coryo@turn.org

CALIFORNIA PUBLIC UTILITIES COMMISSION

Service Lists

Proceeding: A0601012 - PG&E - DEMONSTRATION

Filer: PACIFIC GAS AND ELECTRIC COMPANY (U 39 E)

List Name: LIST

Last changed: December 7, 2006

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Appearance

HAYLEY GOODSON
ATTORNEY AT LAW
THE UTILITY REFORM NETWORK
711 VAN NESS AVENUE, SUITE 350
SAN FRANCISCO, CA 94102

MATTHEW FREEDMAN
ATTORNEY AT LAW
THE UTILITY REFORM NETWORK
711 VAN NESS AVENUE, SUITE 350
SAN FRANCISCO, CA 94102

DIANA L. LEE
CALIF PUBLIC UTILITIES COMMISSION
LEGAL DIVISION
ROOM 4300
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

RICHARD H. COUNIHAN
MANAGING DIRECTOR-CALIFORNIA
ECOS CONSULTING
433 CALIFORNIA STREET, SUITE 630
SAN FRANCISCO, CA 94104

GAIL L. SLOCUM
ATTORNEY AT LAW
PACIFIC GAS AND ELECTRIC COMPANY
77 BEALE STREET
SAN FRANCISCO, CA 94105

JAMES WEIL
DIRECTOR
AGLET CONSUMER ALLIANCE
PO BOX 37
COOL, CA 95614

DAN GEIS
AGRICULTURAL ENERGY CONSUMERS ASSO.
925 L STREET, SUITE 800
SACRAMENTO, CA 95814

Information Only

ERIC YUSSMAN
REGULATORY ANALYST
FELLON-MCCORD & ASSOCIATES
9960 CORPORATE CAMPUS DRIVE
LOUISVILLE, KY 40223

RALPH DENNIS
DIRECTOR, REGULATORY AFFAIRS
FELLON-MCCORD & ASSOCIATES
9960 CORPORATE CAMPUS DRIVE, SUITE 2000
LOUISVILLE, KY 40223

RASHA PRINCE
SAN DIEGO GAS & ELECTRIC
555 WEST 5TH STREET, GT14D6
LOS ANGELES, CA 90013

SAM HITZ
CALIFORNIA CLIMATE ACTION REGISTRY
515 S. FLOWER STREET, STE 1640
LOS ANGELES, CA 90071

CASE ADMINISTRATION
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVE., RM. 370
ROSEMEAD, CA 91770

JANET COMBS
SOUTHERN CALIFORNIA EDISON COMPANY
2244 WALNUT GROVE AVENUE
ROSEMEAD, CA 91770

DONALD C. LIDDELL, PC
DOUGLAS & LIDDELL
2928 2ND AVENUE
SAN DIEGO, CA 92103

JOHN W. LESLIE
ATTORNEY AT LAW
LUCE, FORWARD, HAMILTON & SCRIPPS, LLP
11988 EL CAMINO REAL, SUITE 200
SAN DIEGO, CA 92130

MARC D. JOSEPH
ATTORNEY AT LAW
ADAMS, BROADWELL, JOSEPH & CARDOZO
601 GATEWAY BLVD., STE. 1000
SOUTH SAN FRANCISCO, CA 94080

DIANE I. FELLMAN
ATTORNEY AT LAW
FPL ENERGY, LLC
234 VAN NESS AVENUE
SAN FRANCISCO, CA 94102

JEANNE M. SOLE
DEPUTY CITY ATTORNEY
CITY AND COUNTY OF SAN FRANCISCO
1 DR. CARLTON B. GOODLETT PLACE, RM. 234
SAN FRANCISCO, CA 94102

MELISSA CAPRIA
CITY AND COUNTY OF SAN FRANCISCO
DEPARTMENT OF ENVIRONMENT
11 GROVE STREET
SAN FRANCISCO, CA 94102

STEPHEN A. S. MORRISON
DEPUTY CITY ATTORNEY

GREG SAN MARTIN
PACIFIC GAS AND ELECTRIC COMPANY

OFFICE OF CITY ATTORNEY DENNIS J. HERRER
CITY HALL, SUITE 234
SAN FRANCISCO, CA 94102

77 BEALE STREET, MAIL CODE B24A
SAN FRANCISCO, CA 94105

SHILPA RAMALYA
77 BEALE STREET, ROOM 981
SAN FRANCISCO, CA 94105

CALIFORNIA ENERGY MARKETS
517-B POTRERO AVENUE
SAN FRANCISCO, CA 94110

ALEXANDER RAU
CLIMATE WEDGE LTD.
19 BROMELY PL.
SAN FRANCISCO, CA 94115

PACIFIC GAS AND ELECTRIC COMPANY
PO BOX 7442
SAN FRANCISCO, CA 94120-7442

JONATHAN CHANGUS
THE PACIFIC FOREST TRUST
1001A OREILLY AVENUE
SAN FRANCISCO, CA 94129

LAURIE A. WAYBURN
THE PRESIDIO
1001A OREILLY AVENUE
SAN FRANCISCO, CA 94129

MICHELLE PASSERO
THE PACIFIC FOREST TRUST
1001A OREILLY AVENUE
SAN FRANCISCO, CA 94129

GREGORY BACKENS
PACIFIC GAS AND ELECTRIC COMPANY
PO BOX 770000
SAN FRANCISCO, CA 94177

JAY LUBOFF
PACIFIC GAS AND ELECTRIC COMPANY
PO BOX 770000, MC B9A
SAN FRANCISCO, CA 94177

JOSEPHINE WU
PACIFIC GAS AND ELECTRIC COMPANY
PO BOX 770000, MAIL CODE B9A
SAN FRANCISCO, CA 94177

ANDREW J. VAN HORN
VAN HORN CONSULTING
12 LIND COURT
ORINDA, CA 94563

JODY S. LONDON
JODY LONDON CONSULTING
PO BOX 3629
OAKLAND, CA 94609

MRW & ASSOCIATES, INC.
1999 HARRISON STREET, SUITE 1440

JOHN NICKERSON
PACIFIC FOREST TRUST
3461 BURNETTE WAY

OAKALND, CA 94612

UKIAH, CA 95482

KEVIN KNAUSS
SPRINKLER SERVICE & SUPPLY, INC.
5733 MANZANITA AVE.
CARMICHAEL, CA 95608

BRUCE MCLAUGHLIN
ATTORNEY AT LAW
BRAUN & BLAISING P.C.
915 L STREET, SUITE 1420
SACRAMENTO, CA 95814

CURT BARRY
717 K STREET, SUITE 503
SACRAMENTO, CA 95814

RONALD LIEBERT
ATTORNEY AT LAW
CALIFORNIA FARM BUREAU FEDERATION
2300 RIVER PLAZA DRIVE
SACRAMENTO, CA 95833

BJORN FISCHER
THE CLIMATE TRUST
65 S.W. YAMHILL STREET, STE. 400
PORTLAND, OR 97204

MIKE BURNETT
EXECUTIVE DIRECTOR
THE CLIMATE TRUST
65 S.W. YAMHILL STREET, SUITE 400
PORTLAND, OR 97204

BILL EDMONDS
DIRECTOR, ENVIRONMENTAL POLICY & SUSTAINABILITY
NW NATURAL
220 NW SECOND STREET
PORTLAND, OR 97209

MARK C. TREXLER
TREXLER CLIMATE+ENERGY SERVICES, INC.
529 SE GRAND AVE, SUITE 300
PORTLAND, OR 97214-2232

State Service

JACQUELINE GREIG
CALIF PUBLIC UTILITIES COMMISSION
ENERGY COST OF SERVICE & NATURAL GAS BRANCH
ROOM 4102
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

LAINIE MOTAMEDI
CALIF PUBLIC UTILITIES COMMISSION
DIVISION OF STRATEGIC PLANNING
ROOM 5119
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

MATTHEW DEAL
CALIF PUBLIC UTILITIES COMMISSION
ENERGY RESOURCES BRANCH
AREA 4-A
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

MERIDETH STERKEL
CALIF PUBLIC UTILITIES COMMISSION
ENERGY RESOURCES BRANCH
AREA 4-A
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

SARAH R. THOMAS
CALIF PUBLIC UTILITIES COMMISSION
DIVISION OF ADMINISTRATIVE LAW JUDGES
ROOM 5105
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3214

PIERRE H. DUVAIR
CALIFORNIA ENERGY COMMISSION
1516 NINTH STREET, MS-41
SACRAMENTO, CA 95814

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